

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Gladwin County Road Commission	County Gladwin
Fiscal Year End December 31, 2006	Opinion Date March 30, 2007	Date Audit Report Submitted to State May 22, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

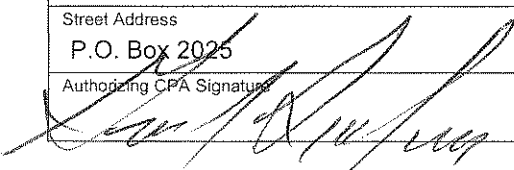
YES ☒ NO ☐

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	None were issued	
Other (Describe)	<input type="checkbox"/>	None were issued	
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (989) 799-9580	
Street Address P.O. Box 2025		City Saginaw	State MI
Zip 48605			
Authorizing CPA Signature 		Printed Name Gerald J. Desloover, CPA	
		License Number 1101007126	

**Gladwin County Road Commission**  
(A Component Unit of Gladwin County)

**Gladwin, Michigan**

**Financial Statements**

**For the Year Ended December 31, 2006**



**REHMANN ROBSON**  
*Certified Public Accountants*

**GLADWIN COUNTY ROAD COMMISSION**  
**(A Component Unit of Gladwin County)**

**TABLE OF CONTENTS**

---

	<b><u>Page</u></b>
<b>Independent Auditors' Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-9
<b>Basic Financial Statements for the Year Ended December 31, 2006</b>	
Statement of Net Assets and General Fund Balance Sheet	10
Reconciliation of General Fund Balance Sheet to Statement of Net Assets	11
Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance	12
Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	13
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	14-15
Notes to Financial Statements	16-26
<b>Operating Fund Schedules</b>	
General Operating Fund – Schedule of Revenues by Component	27
General Operating Fund – Schedule of Expenditures by Component	28
General Operating Fund – Schedule of Changes in Fund Balance	29
<b>Internal Control and Compliance</b>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	30-32



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

## INDEPENDENT AUDITORS' REPORT

April 20, 2007

Members of the Board of County  
Road Commissioners  
County of Gladwin, Michigan  
Gladwin, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Gladwin County Road Commission**, a component unit of Gladwin County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **Gladwin County Road Commission's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Gladwin County Road Commission** as of December 31, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2007, on our consideration of the **Gladwin County Road Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Gladwin County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, looped initial 'L'.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Gladwin County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2006. The annual report consists of a series of financial statements. The Statements of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

### **Overview of the Financial Statements**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and an additional section that presents the operating fund broken down between primary, local and county road funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities-this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Note that Gladwin County government-wide financial statements are not herein presented because the Road Commission is a component unit of the county. The county presents their financial statements elsewhere and in a manner partially resembling private-sector business in its government-wide financial statements in compliance with GASB Statement No. 34.

### **Government-wide Statements**

The statement of net assets presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The statement of activities presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and

expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The component unit financial statements are principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Gladwin County.

The government-wide financial statements include only the Road Commission itself (known as the *Primary government*). The Road Commission has no legally separate component units for which the Road Commission is financial accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Gladwin County, which reports the Road Commission as a component unit.

The government-wide financial statements can be found on pages 10 and 12 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund).

**Governmental funds.** *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purposes as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund can be found on pages 14 through 15 of this report.

The Road Commission does not maintain proprietary nor fiduciary funds.



**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements can be found on pages 16 through 26 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

### **Government-wide Financial Analysis**

The Road Commission's net assets increased approximately 28% or \$2,688,696, from \$9,537,583 to \$12,226,279 for the year ended December 31, 2006. The net assets and change in net assets are summarized below.

Gladwin County Road Commission Net Assets:

	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$ 3,241,957	\$ 3,240,840	\$ 1,117	0.0%
Capital assets	<u>12,904,426</u>	<u>10,550,522</u>	<u>2,353,904</u>	22.3%
Total assets	<u>16,146,383</u>	<u>13,791,362</u>	<u>2,355,021</u>	17.1%
Current and other liabilities	1,713,106	1,767,715	(54,609)	-3.1%
Long-term liabilities outstanding	<u>2,206,998</u>	<u>2,486,064</u>	<u>(279,066)</u>	-11.1%
Total liabilities	<u>3,920,104</u>	<u>4,253,779</u>	<u>(333,675)</u>	-7.8%
Net assets:				
Invested in capital assets, net of related debt	10,984,769	8,353,476	2,631,293	31.5%
Unrestricted	<u>1,241,510</u>	<u>1,184,107</u>	<u>57,403</u>	4.9%
Total net assets	<u>\$ 12,226,279</u>	<u>\$ 9,537,583</u>	<u>\$ 2,688,696</u>	28.2%

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Gladwin County Road Commission, assets exceeded liabilities by \$12,226,279 at the close of the most recent fiscal year.

By far the largest portion of the Gladwin County Road Commission's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. Although the Gladwin County Road Commission's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

## Governmental Activities

A summary of changes in net assets for the years ended December 31, 2006 and 2005, follows:

	<b><u>December 31</u></b> <b><u>2006</u></b>	<b><u>December 31</u></b> <b><u>2005</u></b>
Program revenue		
Charges for services	\$ 1,971,948	\$ 2,089,632
Operating grants and contributions		
State transportation funds	3,285,724	3,310,913
Capital grants and contributions		
Federal and state sources	746,796	309,279
General revenue		
Taxes	1,368,023	1,307,073
Interest and rents	59,303	40,619
Gain on equipment disposal	<u>101,871</u>	<u>93,517</u>
Total revenue	7,533,655	7,151,033
Expenses		
Public Works	<u>4,844,969</u>	<u>4,424,333</u>
Increase (decrease) in net assets	<u>\$ 2,688,696</u>	<u>\$ 2,726,700</u>

Governmental activities increased the Gladwin County Road Commission's net assets by \$2,688,696. The key elements of this increase are as follows:

- There was a 142% increase in capital grants and contributions from the prior year, due to increases in non-recurring maintenance projects funded with State and Federal sources.
- There was a 46% increase in interest and rents from the prior year due to higher interest rates on deposits held by the Road Commission.
- There was a 10% increase in expenses from the prior year, due mainly to non-recurring maintenance projects funded with State and Federal sources.

A summary of changes on the Operating fund is as follows:

	<b>For the year ended December 31, 2006</b>				<b>Actual for the Year Ended December 31 2005</b>
	<b><u>Original Budget</u></b>	<b><u>Final Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance Positive (Negative)</u></b>	
Revenue					
Taxes	\$ 1,308,748	\$1,308,748	\$ 1,368,022	\$ 59,274	\$ 1,307,073
Permits and licenses	7,000	15,000	16,685	1,685	17,935
Federal sources	650,082	443,954	656,796	212,842	274,789
State sources	3,413,000	3,336,303	3,375,724	39,421	3,345,403
Contributions	1,547,775	1,364,098	1,257,911	(106,187)	1,402,495
Charges for services	492,130	539,630	697,353	157,722	669,202
Interest and rentals	15,000	33,000	59,303	26,303	40,619
Other revenue	-	-	101,871	101,871	93,517
Total revenue	<u>7,433,735</u>	<u>7,040,733</u>	<u>7,533,665</u>	<u>492,931</u>	<u>7,151,033</u>
Expenditures					
Primary road maintenance	1,688,066	1,593,377	2,143,874	(550,497)	1,808,383
Local road maintenance	4,330,808	3,760,000	4,310,843	(550,843)	4,426,288
State trunkline maintenance	439,130	439,130	510,870	(71,740)	543,864
State trunkline nonmaintenance	50,000	93,000	175,590	(82,590)	117,136
Equipment expense (net)	(505,000)	(376,000)	29,786	(405,786)	(128,708)
Administrative expense (net)	245,000	245,000	367,154	(122,154)	352,984
Capital outlay (net)	10,000	205,809	(449,579)	655,388	191,596
Debt principal payments	245,852	245,852	277,389	(31,537)	138,205
Other	<u>1,150,000</u>	<u>1,215,000</u>	<u>112,960</u>	<u>1,102,040</u>	<u>115,371</u>
Total expenditures	<u>7,653,856</u>	<u>7,421,168</u>	<u>7,478,887</u>	<u>(57,719)</u>	<u>7,565,119</u>
Net change in fund balance	(220,121)	(380,435)	54,778	435,212	(414,086)
Fund balances, beginning of year	<u>1,507,071</u>	<u>1,507,071</u>	<u>1,507,071</u>	-	<u>1,921,157</u>
Fund balances, end of year	<u>\$ 1,286,950</u>	<u>\$ 1,126,636</u>	<u>\$ 1,561,849</u>	<u>\$ 435,212</u>	<u>\$ 1,507,071</u>

## General Fund Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2006 was \$393,002 lower than the original budget primarily due to changes in projections for revenue from Federal sources and contributions from cities and villages. The actual revenue recognized during 2006 was more than the final amended budget by \$492,932 due mainly to revenues from federal bridge funds, state trunkline maintenance and lease proceeds that were not budgeted.

The final amended expenditure budget for 2006 was \$160,314 lower than the original budget primarily due to changes in projections for maintenance and equipment expenditures. The actual expenditures recognized during 2006 were more than the final amended budget by \$57,719. There were unfavorable variances in several expenditure line items, as presented on page 15, due mainly to the distributive expenses being budgeted as a separate line item, instead of as a component of other expenditure line items.

## Capital Assets and Debt Administration

As of December 31, 2006, the Gladwin County Road Commission had invested \$12,904,426 in capital assets. This amount represents a net increase (including additions and deductions) of \$2,353,904 or 18.24% as follows:

	<u>2005</u>	<u>2006</u>	
Capital assets not being depreciated			
Land and improvements	\$ 108,225	\$ 108,225	0.00%
Construction in progress	<u>190,265</u>	<u>-</u>	-100.00%
Total capital assets not being depreciated	<u>298,490</u>	<u>108,225</u>	-175.80%
Capital assets being depreciated			
Buildings	3,065,247	3,065,247	0.00%
Equipment	4,697,325	4,740,593	0.92%
Infrastructure	<u>7,510,709</u>	<u>10,945,894</u>	31.38%
Total capital assets being depreciated	<u>15,273,281</u>	<u>18,751,734</u>	18.55%
Less accumulated depreciation			
Buildings	(563,646)	(658,347)	14.38%
Equipment	(3,835,293)	(4,041,943)	5.11%
Infrastructure	<u>(622,310)</u>	<u>(1,255,243)</u>	50.42%
Total accumulated depreciation	<u>(5,021,249)</u>	<u>(5,955,533)</u>	15.69%
Net capital assets being depreciated	<u>10,252,032</u>	<u>12,796,201</u>	19.88%
Total net capital assets	<u>\$ 10,550,522</u>	<u>\$ 12,904,426</u>	18.24%

Major capital asset events during the current fiscal year included the following:

Various Resurfacing	\$ 3,435,185
Buildings	329,812
Equipment	<u>31,171</u>
Total Additions	<u>\$ 3,796,168</u>

The Gladwin County Road Commission disposed of equipment during 2006 with a purchase price of \$317,715 and related depreciation of \$206,734. The Road Commission also had a reduction in Construction in Progress of \$190,265.

Additional information on the Road Commission's capital assets can be found in note III.B. on page 22.

### **Long-term debt**

At the year end, the Gladwin County Road Commission's long-term obligations consisted of outstanding bonds, installment purchase agreements and accrued compensated absences. Major long-term debt activity for the year included only scheduled principal and interest payments on bonded debt and installment purchase agreements; no additional debt was issued in the current year. More detailed information about the Road Commission's long-term liabilities is presented in Note III. C. to the financial statements.

### **Economic Factors and Next Year's Budgets and Rates**

No significant factors influenced our preparation of the 2007 Road Commission budget.

### **Requests for Information**

This financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk, Gladwin County Road Commission, 301 S. State Street, Gladwin, Michigan 48624.

## **BASIC FINANCIAL STATEMENTS**

# GLADWIN COUNTY ROAD COMMISSION

## STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

DECEMBER 31, 2006

	General Fund	Adjustments	Statement of Net Assets
<b>ASSETS</b>			
Cash and interest bearing deposits	\$ 877,440	\$ -	\$ 877,440
Accounts receivable			
State trunkline maintenance	90,308	-	90,308
Due on county road agreements	102,564	-	102,564
Michigan Transportation Fund	490,590	-	490,590
Property taxes	1,439,214	-	1,439,214
Due from other governments	10,742	-	10,742
Inventories			
Equipment material and parts	150,506	-	150,506
Road materials	60,258	-	60,258
Deferred expense - federal aid projects	2,335	-	2,335
Unamortized discount on bonds	18,000	-	18,000
Capital assets			
Land and improvements	-	108,225	108,225
Property and equipment - net of accumulated depreciation	-	3,105,550	3,105,550
Infrastructure - net of accumulated depreciation	-	9,690,651	9,690,651
<b>Total assets</b>	<u><u>\$ 3,241,957</u></u>	<u><u>12,904,426</u></u>	<u><u>16,146,383</u></u>
<b>LIABILITIES</b>			
Accounts payable	\$ 44,211	-	44,211
Accrued liabilities	36,794	-	36,794
Accrued interest	-	32,998	32,998
Advances			
State trunkline equipment purchase	110,555	-	110,555
State trunkline maintenance	44,987	-	44,987
Deferred revenue	1,440,561	-	1,440,561
Performance deposits	3,000	-	3,000
Long-term liabilities			
Due within one year	-	108,774	108,774
Due after one year	-	2,098,224	2,098,224
<b>Total liabilities</b>	<u><u>1,680,108</u></u>	<u><u>2,239,996</u></u>	<u><u>3,920,104</u></u>
<b>Fund Balance/Net Assets</b>			
Fund balance			
Reserved for inventory	210,764	(210,764)	-
Unreserved, undesignated	1,351,085	(1,351,085)	-
<b>Total fund balance</b>	<u><u>1,561,849</u></u>	<u><u>(1,561,849)</u></u>	<u><u>-</u></u>
<b>Total liabilities and fund balance</b>	<u><u>\$ 3,241,957</u></u>		
<b>Net Assets:</b>			
Invested in capital assets, net of related debt		10,984,769	10,984,769
Unrestricted		1,241,510	1,241,510
<b>Total net assets</b>		<u><u>\$ 12,226,279</u></u>	<u><u>\$ 12,226,279</u></u>

The accompanying notes are an integral part of these financial statements.

**GLADWIN COUNTY ROAD COMMISSION**  
**Reconciliation of General Fund Balance Sheet**  
**to Statement of Net Assets**

**DECEMBER 31, 2006**

---

Fund balance - General Fund	\$ 1,561,849
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - land and improvements	108,225
Add - property and equipment	7,805,840
Add - infrastructure	10,945,894
Deduct - accumulated depreciation	(5,955,533)
Long-term liabilities, including bonds payable and capital leases payable are not due and payable in the current period and therefore, are not reported in the funds	
Deduct - bonds payable	(1,830,000)
Deduct - accrued interest on bonds	(32,998)
Deduct - installment purchase agreements	(89,657)
Deduct - accrued compensated absences	(287,341)
Net assets of governmental activities	<u><u>\$ 12,226,279</u></u>

The accompanying notes are an integral part of these financial statements.



# GLADWIN COUNTY ROAD COMMISSION

## STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Expenditures/expenses</b>			
Public works	\$ 3,825,388	\$ 971,985	\$ 4,797,373
Capital outlay	3,653,499	(3,605,903)	47,596
Total expenditures/expenses	<u>7,478,887</u>	<u>(2,633,918)</u>	<u>4,844,969</u>
<b>Program revenue</b>			
Charges for services	1,971,949	-	1,971,949
<b>Operating grants and contributions</b>			
State transportation funds	3,285,724	-	3,285,724
<b>Capital grants and contributions</b>			
Federal and state sources	<u>746,796</u>	<u>-</u>	<u>746,796</u>
Total program revenues	<u>6,004,469</u>	<u>-</u>	<u>6,004,469</u>
Net program revenue			<u>1,159,500</u>
<b>General revenue</b>			
Taxes	1,368,022	-	1,368,022
Interest and rents	59,303	-	59,303
Gain on sale of assets	<u>101,871</u>	<u>-</u>	<u>101,871</u>
Total general revenue	<u>1,529,196</u>	<u>-</u>	<u>1,529,196</u>
Total revenue	<u>7,533,665</u>		
Revenue over (under) expenditures	54,778	(54,778)	-
<b>Other financing sources</b>			
Installment purchase proceeds	-	-	-
Proceeds from sale of bonds	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>
Revenue and other financing sources over (under) expenditures	<u>54,778</u>		
Changes in net assets	-	2,688,696	2,688,696
Fund balance/net assets:			
Beginning of the year	<u>1,507,071</u>	<u>8,030,512</u>	<u>9,537,583</u>
<b>End of the year</b>	<u><u>\$ 1,561,849</u></u>	<u><u>\$ 10,664,430</u></u>	<u><u>\$ 12,226,279</u></u>

The accompanying notes are an integral part of these financial statements.

**GLADWIN COUNTY ROAD COMMISSION**  
**Reconciliation of the General Fund Revenues, Expenditures**  
**and Changes in Fund Balance to the Statement of Activities**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

---

Change in fund balance - General Fund	\$ 54,778
---------------------------------------	-----------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	170,718
Add - Infrastructure purchases	3,435,185
Deduct - depreciation expense	(1,141,018)

Disposal of capital assets before they are fully depreciated results in the recording of an expense in the statement of activities, but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund. (110,981)

Repayment of the principal on long-term debt consumes current financial resources of governmental funds. This transaction, however, does not affect net assets. This amount is the effect of this difference in the treatment of long-term debt. 277,389

The change in the accrued interest on bonds is reported as an expense in the statement of activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund. 948

The change in the accrued compensated absences is reported as an expense in the statement of activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund. 1,677

Change in net assets of governmental activities	<u>\$ 2,688,696</u>
---	---------------------

The accompanying notes are an integral part of these financial statements.

# GLADWIN COUNTY ROAD COMMISSION

## GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>				
<b>Taxes</b>				
County millage	\$ 1,308,748	\$ 1,308,748	\$ 1,367,055	\$ 58,307
Other	-	-	967	967
<b>Permits and licences</b>	7,000	15,000	16,685	1,685
<b>Federal sources</b>				
D funds	650,082	443,954	7,699	(436,255)
Bridge	-	-	649,097	649,097
<b>State sources</b>				
Michigan Transportation funds				
Engineering	-	-	10,000	10,000
STP	-	-	101,386	101,386
Allocation	3,413,000	3,336,303	3,172,894	(163,409)
State critical bridge	-	-	1,444	1,444
Economic development funds				
Forest Road (E)	-	-	90,000	90,000
<b>Contributions</b>				
City and Villages	1,547,775	1,364,098	1,245,306	(118,792)
Townships	-	-	12,605	12,605
<b>Charges for services</b>				
State trunkline maintenance	492,130	539,630	510,870	(28,760)
State trunkline non-maintenance	-	-	175,590	175,590
Salvage sales	-	-	10,893	10,893
<b>Interest and rentals</b>	15,000	33,000	59,303	26,303
<b>Other revenue</b>				
Proceeds on equipment disposals	-	-	101,871	101,871
<b>Total revenues</b>	7,433,735	7,040,733	7,533,665	492,932

# GLADWIN COUNTY ROAD COMMISSION

## GENERAL FUND

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Expenditures</b>				
<b>Primary Road</b>				
Heavy maintenance	\$ 1,188,066	\$ 1,043,377	\$ 1,458,142	\$ (414,765)
Maintenance	500,000	550,000	685,732	(135,732)
<b>Local Road</b>				
Heavy maintenance	2,255,808	1,910,000	2,025,870	(115,870)
Maintenance	2,075,000	1,850,000	2,284,973	(434,973)
<b>Total maintenance</b>	6,018,874	5,353,377	6,454,717	(1,101,340)
<b>State trunkline maintenance</b>	439,130	439,130	510,870	(71,740)
<b>State trunkline non-maintenance</b>	50,000	93,000	175,590	(82,590)
<b>Equipment expense (net)</b>	(505,000)	(376,000)	29,786	(405,786)
<b>Administrative expense (net)</b>	245,000	245,000	367,154	(122,154)
<b>Capital outlay (net)</b>	10,000	205,809	(449,579)	655,388
<b>Debt principal payments</b>	245,852	245,852	277,389	(31,537)
<b>Other</b>				
Distributive Expense	1,150,000	1,215,000	-	1,215,000
Drain Commission	-	-	21,252	(21,252)
Interest expense	-	-	91,708	(91,708)
<b>Total expenditures</b>	7,653,856	7,421,168	7,478,887	(57,719)
Net change in fund balance	(220,121)	(380,435)	54,778	435,213
Fund balances, beginning of year	1,507,071	1,507,071	1,507,071	-
<b>Fund balances, end of year</b>	<u>\$ 1,286,950</u>	<u>\$ 1,126,636</u>	<u>\$ 1,561,849</u>	<u>\$ 435,213</u>

The accompanying notes are an integral part of these financial statements.

# GLADWIN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

---

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Gladwin County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

#### A. Reporting Entity

The *Gladwin County Road Commission*, referred to as the Road Commission, is a discrete component unit of the County of Gladwin, Michigan. The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Department of State Highways for work done by the County on State trunklines, Federal Transportation funds, and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable.

The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan, to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by taxes, charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

A combined financial statement is provided for the general fund balance sheet and the statement of net assets and the general fund statement of revenues, expenditures and changes in fund balances and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes.

# GLADWIN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

---

### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund statement of revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and federal revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major *governmental* fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

### **D. Assets, Liabilities, and Net Assets or Equity**

#### **1. Deposits**

Cash and cash equivalents consist of cash on hand, deposits in demand and time deposit accounts, money market deposits, and certificates of deposits with original maturities of less than 90 days.

#### **2. Inventory**

Inventory, consisting of various operating parts, supplies and road material is stated at cost, as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

# GLADWIN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

---

### 3. Deferred expense

Deferred expenses consist of amounts owed by the Road Commission in accordance with federal and state aid contracts where the work is to be performed by private contractors paid by the State Department of Transportation. Debit balances result in this account when the Road Commission advances money for these projects in accordance with the aforementioned federal and state aid contracts.

### 4. Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Fund.

Costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets (roads, bridges, traffic signals and similar items) in 2004 were capitalized and are reported as infrastructure capital assets in the Statement of Net Assets. Infrastructure capital assets will continue to be capitalized prospectively.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

Buildings	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Office equipment	4 to 10 years
Engineering equipment	4 to 10 years
Infrastructure – bridges	12 to 50 years
Infrastructure – roads	5 to 30 years
Infrastructure – traffic signals	15 years

# **GLADWIN COUNTY ROAD COMMISSION**

## **NOTES TO FINANCIAL STATEMENTS**

---

### **5. Deferred revenue**

Under the modified accrual basis of accounting, amounts that are measurable, but not available to pay liabilities of the current period are classified as deferred revenue. The balance of deferred revenue at year-end consists of property taxes levied for the subsequent fiscal year.

### **6. State Trunkline Adjustments**

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. The amount of the adjustments, if any, for the year ended December 31, 2006, has not been determined. Based on past experience, the Road Commission does not believe the adjustment will be a material amount.

### **7. Compensated Absences**

Vacation and sick leave payable is reported in the General Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary Data**

The Road Commission's procedures for establishing budgetary data are as follows:

The Superintendent submits a proposed budget for the upcoming year to the Board of County Road Commissioners. The budget is reviewed by the Board and a public hearing is held. Prior to the beginning of the year, the budget is adopted and placed in the Board minutes by the Road Commission.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.



# GLADWIN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

---

Variances at the legal level of control are as disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and Investments

##### **Deposits**

At year-end, the carrying amounts of the Road Commission's deposits were as follows:

	<b><u>Cash and Cash Equivalents</u></b>
Cash on hand	\$ 25
Other demand accounts	<u>877,415</u>
	<u><u>\$ 877,440</u></u>

This entire balance is considered to be deposits for disclosure purposes.

##### **Deposit and investment risk**

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

# GLADWIN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

---

- External investment pools as authorized by Public Act 20 as amended through 12/31/97

*Interest Rate Risk.* The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* The Road Commission's investment policy does not have specific limits in excess of state law on investment credit risk. At year-end, the Road Commission had no investments and was therefore, not exposed to credit risk.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. At year-end, \$835,742 of the Road Commission's bank balance of \$917,340 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk. The Road Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year-end, The Road Commission had no investments and was therefore, not exposed to concentration of credit risk.

# GLADWIN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### **B. Capital Assets**

Capital asset activity for the year ended December 31, 2006, was as follows:

	<b><u>Balance January 1, 2006</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>Balance December 31, 2006</u></b>
Capital assets not being depreciated				
Land and improvements	\$ 108,225	\$ -	\$ -	\$ 108,225
Construction in progress	<u>190,265</u>	<u>-</u>	<u>(190,265)</u>	<u>-</u>
Total capital assets not being depreciated	<u>298,490</u>	<u>-</u>	<u>(190,265)</u>	<u>108,225</u>
Capital assets being depreciated				
Buildings	3,065,247	-	-	3,065,247
Road equipment	4,402,113	329,812	(317,715)	4,414,210
Garage equipment	121,928	-	-	121,928
Sign shop equipment	6,590	-	-	6,590
Yard equipment	25,602	31,171	-	56,773
Office equipment	126,266	-	-	126,266
Engineers equipment	14,826	-	-	14,826
Infrastructure – bridges	1,120,754	72,241	-	1,192,995
Infrastructure – roads	<u>6,389,955</u>	<u>3,362,944</u>	<u>-</u>	<u>9,752,899</u>
Total capital assets being depreciated	<u>15,273,281</u>	<u>3,796,168</u>	<u>(317,715)</u>	<u>18,751,734</u>
Less accumulated depreciation				
Buildings	(563,646)	(94,701)	-	(658,347)
Road equipment	(3,593,188)	(393,944)	206,734	(3,780,398)
Garage equipment	(96,586)	(10,711)	-	(107,297)
Sign shop equipment	(6,590)	-	-	(6,590)
Yard equipment	(9,978)	(3,151)	-	(13,129)
Office equipment	(114,125)	(5,578)	-	(119,703)
Engineers equipment	(14,826)	-	-	(14,826)
Infrastructure – bridges	(54,336)	(28,749)	-	(83,085)
Infrastructure – roads	<u>(567,974)</u>	<u>(604,184)</u>	<u>-</u>	<u>(1,172,158)</u>
Total accumulated depreciation	<u>(5,021,249)</u>	<u>(1,141,018)</u>	<u>206,734</u>	<u>(5,955,533)</u>
Net capital assets being depreciated	<u>10,252,032</u>	<u>2,655,150</u>	<u>(110,981)</u>	<u>12,796,201</u>
Total net capital assets	<u>\$ 10,550,522</u>	<u>\$ 2,655,150</u>	<u>\$ (301,426)</u>	<u>\$ 12,904,426</u>

# GLADWIN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### C. Long-Term Debt

Long-term liability activity for the year ended December 31, 2006, was as follows:

	<b>Balance January 1, 2006</b>	<b>Increases</b>	<b>(Decreases)</b>	<b>Balance December 31, 2006</b>	<b>Due Within One Year</b>
Installment purchase agreements	\$ 297,046	\$ -	\$ (207,389)	\$ 89,657	\$ 3,883
Bonds payable	1,900,000	-	(70,000)	1,830,000	75,000
Compensated absences	<u>289,018</u>	<u>234,474</u>	<u>(236,151)</u>	<u>287,341</u>	<u>29,891</u>
Total	<u>\$ 2,486,064</u>	<u>\$ 234,474</u>	<u>\$ (513,540)</u>	<u>\$ 2,206,998</u>	<u>\$ 108,774</u>

A summary of outstanding debt as of December 31, 2006, is as follows:

Capital lease payable to Caterpillar Financial Services Corporation, secured by equipment, due in monthly installments of \$617 including interest at 4.00% through April, 2009, with a balloon payment of \$80,617 due in May, 2009.	\$ 89,657
Michigan Transportation Fund Bonds, Series 2004 due in annual installments from 2005 through 2024, including interest at 3.25% to 5.00%.	<u>1,830,000</u>
Subtotal	1,919,657
Accrued vacation and sick leave	<u>287,341</u>
Total	<u>\$ 2,206,998</u>

# GLADWIN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

---

On the above capital lease, title to the equipment is transferred to the lessor at the end of the lease. The lease payable is recorded at the present value of minimum lease payments.

Annual debt service requirements to maturity for installment purchase agreements and Michigan Transportation Fund bonds are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 78,883	\$ 82,493
2008	79,042	79,896
2009	156,732	75,453
2010	80,000	71,503
2011	80,000	67,663
2012-2016	460,000	286,285
2017-2021	575,000	172,081
2022-2024	<u>410,000</u>	<u>31,403</u>
	<u>\$ 1,919,657</u>	<u>\$ 866,777</u>

#### IV. OTHER INFORMATION

##### A. Defined Benefit Pension Plan

###### **Pension Plan**

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (888) 478-1919.

###### **Funding Policy**

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 14.02% of annual covered payroll for general employees and 7.87% for Commissioners. Road Commission employees are required to contribute 3% of their first \$4,200 of annual covered payroll and 5% of their annual covered payroll in excess of \$4,200 to the plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission.

# GLADWIN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### Annual Pension Cost

For the year ended December 31, 2006, the Road Commission's annual pension cost of \$188,699 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2004, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 30 years.

### Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2004	\$ 186,421	100%	\$ -
12/31/2005	190,863	100	-
12/31/2006	188,699	100	-

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2003	\$ 8,009,572	\$ 9,874,816	\$ 1,865,244	81%	\$ 1,516,789	123%
12/31/2004	8,270,256	10,452,554	2,182,298	79	1,588,721	137
12/31/2005	8,438,637	11,178,640	2,740,003	75	1,489,132	184

### **B. Self-Insurance Pool**

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

# GLADWIN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

---

### **C. Contingencies**

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

### **D. Federal Award Expenditure / Single Audit**

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County.

During the year ended December 31, 2006, the Road Commission recorded expenditures of federal awards in the amount of \$656,796. The entire amount of these expenditures represent Department of Transportation Federal Highway grant proceeds expended on public road improvement projects under Federal Urban and Rural Programs, whereby work was administered by the Michigan Department of Transportation. Due to the work and funding of these projects being performed at the State level, these expenditures will be included in the single audit procedures of the State. No federal awards expenditures were administered by the Gladwin County Road Commission; therefore a single audit for the Road Commission is not required.

\* \* \* \* \*

## **OPERATING FUND SCHEDULES**



**GLADWIN COUNTY ROAD COMMISSION****GENERAL OPERATING FUND  
SCHEDULE OF REVENUES BY COMPONENT****FOR THE YEAR ENDED DECEMBER 31, 2006**

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
<b>Revenues</b>				
Taxes				
County millage	\$ -	\$ -	\$ 1,367,055	\$ 1,367,055
Other taxes	-	-	967	967
Permits and licenses	-	-	16,685	16,685
Federal sources				
Bridge	-	7,699	-	7,699
D funds	649,097	-	-	649,097
State sources				
Michigan transportation funds				
Engineering	5,821	4,179	-	10,000
STP	101,386	-	-	101,386
Allocation	1,856,534	1,316,360	-	3,172,894
State critical bridge	-	1,444	-	1,444
Economic development funds				
Forest road (E funds)	-	90,000	-	90,000
Contributions from local units				
Townships	-	-	1,245,306	1,245,306
City and Village	-	-	12,605	12,605
Charges for services				
State trunkline maintenance	-	-	510,870	510,870
State trunkline non-maintenance	-	-	175,590	175,590
Salvage sales	-	-	10,893	10,893
Interest and rentals	-	-	59,303	59,303
Other				
Gain on equipment disposals	-	-	101,871	101,871
<b>Total revenues</b>	<u>\$ 2,612,838</u>	<u>\$ 1,419,682</u>	<u>\$ 3,501,145</u>	<u>\$ 7,533,665</u>

# GLADWIN COUNTY ROAD COMMISSION

## GENERAL OPERATING FUND SCHEDULE OF EXPENDITURES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2006

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
<b>Expenditures</b>				
Heavy maintenance				
Roads	\$ 1,458,142	\$ 1,764,470	\$ -	\$ 3,222,612
Structures	-	261,400	-	261,400
Maintenance				
Roads	379,674	1,722,057	-	2,101,731
Structures	139,796	204,497	-	344,293
Winter maintenance	136,962	288,332	-	425,294
Traffic control	29,300	70,087	-	99,387
Total maintenance	2,143,874	4,310,843	-	6,454,717
State trunkline maintenance	510,870	-	-	510,870
State trunkline non-maintenance	175,590	-	-	175,590
Equipment expense (net)	8,039	21,658	89	29,786
Administrative expense (net)	121,947	245,207	-	367,154
Capital outlay (net)	-	-	(449,579)	(449,579)
Debt principal payments	-	-	277,389	277,389
Interest expense	-	-	91,708	91,708
Other				
City of Gladwin	-	-	21,252	21,252
<b>Total expenditures</b>	<u>\$ 2,960,320</u>	<u>\$ 4,577,708</u>	<u>\$ (59,141)</u>	<u>\$ 7,478,887</u>

**GLADWIN COUNTY ROAD COMMISSION**

**GENERAL OPERATING FUND**

**SCHEDULE OF CHANGES IN FUND BALANCE BY COMPONENT**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Total revenues	\$ 2,612,838	\$ 1,419,682	\$ 3,501,145	\$ 7,533,665
Total expenditures	2,960,320	4,577,708	(59,141)	7,478,887
<b>Revenues over (under) expenditures</b>	(347,482)	(3,158,026)	3,560,286	54,778
<b>Other financing sources (uses)</b>				
Installment purchase proceeds	-	-	-	-
Proceeds from sale of bonds	-	-	-	-
Intrafund transfers	347,482	3,158,026	(3,505,508)	-
<b>Total other financing sources (uses)</b>	347,482	3,158,026	(3,505,508)	-
<b>Revenues and other sources over (under)     expenditures and other (uses)</b>	-	-	54,778	54,778
<b>Fund balance, beginning of year</b>	-	-	1,507,071	1,507,071
<b>Fund balance, end of year</b>	\$ -	\$ -	\$ 1,561,849	\$ 1,561,849

## **INTERNAL CONTROL AND COMPLIANCE**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

April 20, 2007

Members of the Board of County  
Road Commissioners  
County of Gladwin, Michigan  
Gladwin, Michigan

We have audited the financial statements of the governmental activities and the major fund of the **Gladwin County Road Commission**, a component unit of Gladwin County, as of and for the year ended December 31, 2006, which collectively comprise the Road Commission's basic financial statements and have issued our report thereon dated April 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered **Gladwin County Road Commission's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Gladwin County Road Commission's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Gladwin County Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the following deficiency to be a significant deficiency in internal control over financial reporting.

## **Finding 2006-1 – Preparation of Financial Statements in Accordance with GAAP**

<b>Criteria:</b>	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
<b>Condition:</b>	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the government's <i>internal</i> controls.
<b>Cause:</b>	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
<b>Effect:</b>	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
<b>View of Responsible Officials:</b>	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **Gladwin County Road Commission's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Gladwin County Road Commission's** responses to the findings identified in our audit are described above. We did not audit Gladwin County Road Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Board members, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.